

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Dipaleseng Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Dipaleseng Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dipaleseng Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material impairments

8. As disclosed in notes 3 and 4 to the financial statements, material impairments to the amounts of R34 745 711 and R271 167 001 were incurred as a result of poor collection practices.

Material losses – electricity

9. As disclosed in note 46 to the financial statements, material electricity losses to the amount of R12 534 655 (2015-16: R9 561 270) were incurred, which represented 22,3% (2015-16: 21,24%) of the total electricity purchased.

Material losses – water

10. As disclosed in note 46 to the financial statements, material water losses to the amount of R4 812 713 (2015-16: R5 249 054) were incurred, which represented 66% (2015-16: 65%) of the total water purchased.

Other matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure note

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the municipality for the year ended 30 June 2017:

Programmes	Pages in the annual performance report
Directorate 4 – community services and public safety	x – x
Directorate 5 – planning and economic development	x – x
Directorate 6 – infrastructure services	x – x

20. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

Directorate 4 – community services and public safety

Various indicators

22. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targets. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement in the following instances:

No.	Indicator name	Reported achievement
1.	Number of road signs maintained	20
2.	Number of new road signs installed in all towns	35
3.	Number of kms of road markings in all major roads in the municipality	2km

Various indicators

23. The reported achievement for the targets of the following indicators was misstated, as the evidence provided indicated different results:

No.	Indicator name	Reported achievement	Audited value
1.	Number of prevention campaigns undertaken ('arrive alive')	3	1
2.	Number of reports of attendance of vehicle registration	12	2
3.	Number of reports for vehicles tested	12	6
4.	Number of reports for applicants tested for driving licence	12	6
5.	Number of reports on Keep Dipaleseng Clean	12	10
6.	Number of reports for grass cutting in open spaces	12	8
7.	Number of reports on maintenance of cemeteries	8	10
8.	Number of reports on emergency incidents attended	12	8
9.	Number of reports on maintenance sporting facilities	12	10

Directorate 5 – planning and economic development

Various indicators

24. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targets. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement in the following instances:

No.	indicator name	Reported achievement
1.	Number of new buildings for consideration and approved within 30 days	100% (33)
2.	Number of job opportunities created	3
3.	Township establishment for portion 5 (portion of portion 20) of the farm Vlakfontein 5561R for development of integrated human settlements (Mr Engelbrecht)	Not reported on

25. The reported achievement for the target of the following indicator was misstated, as the evidence provided indicated different results:

Indicator name	Reported achievement	Audited value
Number of approved building plans	100% (33)	44

26. The following reported indicators were not consistent with the planned indicators included in the service delivery and budget implementation plan (SDBIP):

No.	Indicator per SDBIP	Reported indicator per annual performance report
1.	Number of job opportunities created	4 reports of activities performed
2.	Number of new buildings for consideration and approved within 30 days	Percentage of new buildings for consideration and approved within 30 days
3.	Number of approved building plans	Percentage of approved building plans
4.	Number of land developments and application received (re-zoning, sub-division and consolidation)	Percentage of land developments and application received (re-zoning, sub-division and consolidation)
5.	Number of land developments and application evaluated and processed (re-zoning, sub-division and consolidation)	Percentage of land developments and application evaluated and processed (re-zoning, sub-division and consolidation)
6.	Township establishment for portion 5 (portion of portion 20) of the farm Vlakfontein 556IR for development of integrated human settlements (Mr Engelbrecht)	200 subsidised housing units in Siyatamba and Grootvlei

Directorate 6 – infrastructure services

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targets. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement in the following instances:

No.	Indicator name	Reported achievement
1.	Percentage decrease in water losses distributed from the waterworks to the consumers	0,6
2.	Average number of hours taken to restore water supply disruptions	24
3.	Average number of hours taken to unblock sewer spillage	24
4.	Percentage decrease in electricity losses distributed from the substations to the consumers supplied by DLM	0,55
5.	Average hours taken to restore electricity outages	More than 24 hours taken to restore electricity

No.	Indicator name	Reported achievement
6.	0.4 km2 of potholes patched Number of km2 roads maintained through patching of potholes	3.4 km of potholes patching
7.	Number of km2 roads regradeled	30km
8.	Number of EPWP (FTEs) job opportunities created through MIG capital projects	100
9.	Establishment of landfill site Balfour/Siyathemba Phase 02	Not reported on

28. The reported achievement for the targets of the following indicators was misstated, as the evidence provided indicated different results:

No.	Indicator name	Reported achievement	Audited value
1.	No. of households provided with at least a basic or higher level of water service to eradicate backlogs NKPI (annual)	13 213	119
2.	Percentage Blue Drop Status achieved	0,15	0
3.	Percentage Green Drop Status achieved	0,15	0
4.	Number of households provided with basic electricity service to eradicate backlogs	10 960	46
5.	Number of MIG projects completed	4	2

29. The following reported indicator was not consistent with the planned indicator included in the SDBIP:

No.	indicator per SDBIP	Reported indicator
1.	Establishment of landfill site Balfour/Siyathemba Phase 02	Establishment of landfill site Balfour/Siyathemba Phase 03

Other matter

30. I draw attention to the matter below.

Achievement of planned targets

31. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 22 to 29 of this report.

Report on the audit of compliance with legislation

Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance report and annual report

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current liabilities identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Budget

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R33 028 530, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-cash items.

Procurement and contract management

36. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(a) and (c).

37. Some quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).

38. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

39. Some quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
40. Sufficient appropriate audit evidence could not be obtained that all goods and services with a transaction value above R200 000 had been procured by inviting competitive bids, as required by SCM regulations 19(a) and 36(1).
41. Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
42. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding had been advertised for the required minimum period, as required by SCM regulation 22(1) and 22(2).
43. Sufficient appropriate audit evidence could not be obtained that bids had been evaluated by bid evaluation committees composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
44. Sufficient appropriate audit evidence could not be obtained that contracts had been awarded to bidders based on points given for criteria stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
45. Sufficient appropriate audit evidence could not be obtained that bid adjudication committees were always composed in accordance with SCM regulation 29(2).
46. Sufficient appropriate audit evidence could not be obtained that contracts had been awarded to only bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
47. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to only providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
48. Sufficient appropriate audit evidence could not be obtained that the preference point system had been applied in all the procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA).
49. Sufficient appropriate audit evidence could not be obtained that all contracts had been awarded to suppliers based on preference points allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
50. Sufficient appropriate audit evidence could not be obtained that contracts had been awarded to only bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and the Preferential Procurement Regulations.

51. Sufficient appropriate audit evidence could not be obtained that contracts had been awarded to bidders based on points given for criteria stipulated in the original invitation for bidding, as required by the Preferential Procurement Regulations.
52. Some construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000).
53. Bid documentation for the procurement of some commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 9(1).
54. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps had been taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Asset management

55. Contrary to section 14(1) of the MFMA, the municipality sold capital assets that might still have been needed for the provision of basic municipal services, without council approval.
56. Capital assets were sold without the approval of the council and/or the accounting officer, in contravention of section 14(2)(a) of the MFMA.

Expenditure management

57. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
58. Effective steps were not taken to prevent irregular expenditure amounting to R37 435 836, as disclosed in note 45 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM processes and procedures upon procuring goods.
59. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 910 180, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by interest charged on late payments.

Annual report

60. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Consequence management

61. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

62. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
63. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Human resource management

64. Appropriate systems and procedures to monitor, measure and evaluate the performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Other information

65. The municipality's accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those programmes presented in the annual performance report that have been specifically reported on in the auditor's report.
66. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
67. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.
68. I have read the other information included in the draft annual report and have nothing to report in this regard.
69. I have not yet received the final annual report containing the other information. When I do receive this information, and if I conclude that it contains a material misstatement, I am required to communicate the matter to those charged with governance and to request the other information to be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

Internal control deficiencies

70. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

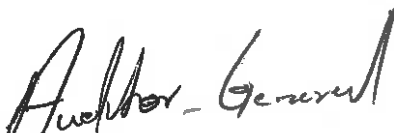
71. The accounting officer did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
72. An action plan to address identified control deficiencies was not properly implemented and closely monitored.

Financial and performance management

73. Senior management did not implement the effective monitoring and review of performance reports to ensure that they were accurate, complete and supported by valid evidence.
74. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
75. Monitoring tools were not put in place to review and monitor compliance with applicable legislation.

Governance

76. The municipality did not ensure that there was an adequately resourced and functioning internal audit unit that identified internal control deficiencies and recommended corrective action effectively.
77. The audit committee did not always ensure that responsive recommendations were provided to the municipality to ensure an improvement in the control environment.



Mbombela

8 December 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected programmes and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause the municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

